

Green Banking Initiatives of Some Selected PCBs in Bangladesh : A Special Focus on Islami Bank Bangladesh Limited

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Abstract

The purpose of the study is to assess the performance of green banking of some selected commercial banks in Bangladesh. This research specially focuses the description of conceptual parts of green banking of commercial banks and their basic policies, procedures and also comparing the analysis part of the sustainable banking system. To conduct the research, extensive secondary data have been used. In this research, a sound green investments of selected commercial banks in Bangladesh was traced. The research also explains the present growth of some commercial banks in green investments. The study revealed the green banking road map in Bangladesh and found out the comparative analysis on different types of selected banks in Bangladesh to reason why this policy was adopted. This research would be great help to the policy makers, practitioners, researchers, academicians and to other stakes. The stakeholders can explore this issue to do more research in future.

Key Words: Green Banking, Green Banking Policies, Environmental Issues, Sustainable Development.

Abbreviation: PCBs: Privatized Commercial Banks; IBBL: Islamic Bank Bangladesh Limited

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1. Introduction

Environmental pollution and climate change leading to global warming are one of the three most discussed issues worldwide. These issues, mostly caused by human activities, are not only affecting our economy and our living standards, but our very existence is dependent on the efficient management of these issues.

The geographic location of Bangladesh makes it one of the most climate vulnerable regions of the world. Lack of awareness, environmental education, compliance and negligence on the part

of the business and the mass people are also resulting in fast deterioration of the environment. This situation can only be improved through coordinated efforts from the government, private sector, and individuals. And banks and FIs are well positioned to act as catalysts to support and supplement these efforts aimed at a greener environment.

‘Green Banking’ is the operation of the financial sector with special focus on the environmental, ecological and social factors, targeting conservation of nature and natural resources. The term broadly encompasses awareness creation and promotion of environment-friendly projects and practices, and reduction of the overall carbon footprint from both its financing and in-house operations. Through green banking, the FIs are not only required to improve their own standards, but also play an active role in demanding the same from its stakeholders as well.

In Bangladesh, perhaps no worth mentioning study was conducted especially on the sustainability of the green banking. Realizing the significance of sustainability of said sector in Bangladesh, the researchers have become ardently engrossed to conduct an in-depth research study on this drone issue of modern economy.

2. Literature Review

A number of available research papers have been studied to the backdoor of doing this study. The main findings of those researches have been summarized in this part of the study:

Lalon (2015) stated in his paper that, the green banking activities of commercial banks of Bangladesh and tried to reason why this policy was adopted, and make a comparison among the green banking practices of the commercial banks as well.

Ullah (2013) argued that, Due to global warming various action plans are tried to find out the present status of green banking practices in Bangladesh. In doing so a comparative analysis

has been initiated among different types of banks in operation in Bangladesh to see whether they adopted green banking policy guided by Bangladesh Bank.

Ahmad; Zayed & Harun (2013) expressed the green banking activities of Bangladeshi commercial banks and find out the reasons behind adopting green banking.

Dr. Sarita Bahl (2012) study on the role of green banking in sustainable growth claimed that, Green banking creates great contribution to the alteration to resource-efficient and low carbon industries i.e. green finance and green industry in general. This paper also stated to highlight the means to create awareness in internal as well as external sub-systems among target groups and impart education to attain sustainable growth through green banking.

Rahman; Ahsan; Hossain and Hoq's paper on Green banking prospects in Bangladesh revealed that banks can be green through bringing changes in six main spheres of banking actions. These are adjusted in venture management, adjust in deposit management, adjust in housekeeping, adjust in the process of recruitment and development of human capital, corporate social responsibility (CSR) and making consciousness among clients and general mass.

Yadav & Pathak revealed their paper that, the various green banking approaches adopted by private and public sector banks in India for environmental sustainability. Moreover, this paper attempted to categorize the phases of Green marketing initiatives of the banks on the basis of their green banking initiatives.

According to the Dr. Kailash (2011) revealed that, Changes is the need of the hour to for survival in all spheres. The world has been seen much focus of economic development, however, also, been an equally enormous loss of biodiversity, climatic change & environmental damage. The bank is also not the exception for this. This paper tried to find out the ways to Go Green through Green Banking.

Islam's paper on Green Banking in Bangladesh studied the positive attitude toward green banking, strong coordination among stakeholders, developing environmental governance within the bank, environmental awareness among employees and clients, viable production technology, automation of banks, uniform reporting of banks and proper feedback to practitioners etc.

3. Objectives

The objectives of the study are:

- To provide the idea about environmental friendly practices adopted under green banking in Bangladesh;
- To assess the performance of green banking of sample commercial banks in Bangladesh;
- To identify the barriers of green banking for adopting it in those banks in Bangladesh.

4. Methodology of The Study

For smooth and accurate study it is needed to follow the right approach of research or to adopt an ideal methodology. This study is descriptive (exploratory and explanatory) in nature. Qualitative research technique is used as the main research approach supported by quantitative research methodology to some extent. The study is mainly based on extensive Secondary sources e.g.; Literature reviews and annual report of IBBL& other selected commercial banks, Websites, Different books, various seminar and workshop information and other relative information published on the banks and Bangladesh Bank have been used for acquiring information on the concerned issue. Actually, we did not interview of company executives for conducting the research. The findings of the paper are as reliable as the real sources of data. The major drawback of the study is that no primary data is involved in the study.

5. Qualitative Overview of Green Banking

5.1 Background of Green Banking

Green Banking is any system of banking from that, the country and nation become environmental benefits. An orthodox bank suits a green bank, by leading its core operations toward the betterment of the environment. The banking sector can play an intermediary role between economic development and environment protection by supporting environmentally sustainable and socially responsible investment. The concept of green banking was developed in the western countries. Green Banking formally started in 2003 with a view to shielding the environment. Then the Equator Principles (EPs) were launched and were initially approved by some leading global banks, such as Citigroup Inc, The Royal Bank of Scotland, Westpac Banking Corporation. In March 2009, Congressman Chris Van Hollen of USA introduced a Green Bank Act with the aim of forming a green bank under the ownership of the US government. After introducing the Green Banking initial decision was to minimize the paper use in banking works because to make all kinds of papers need to cutting trees as raw

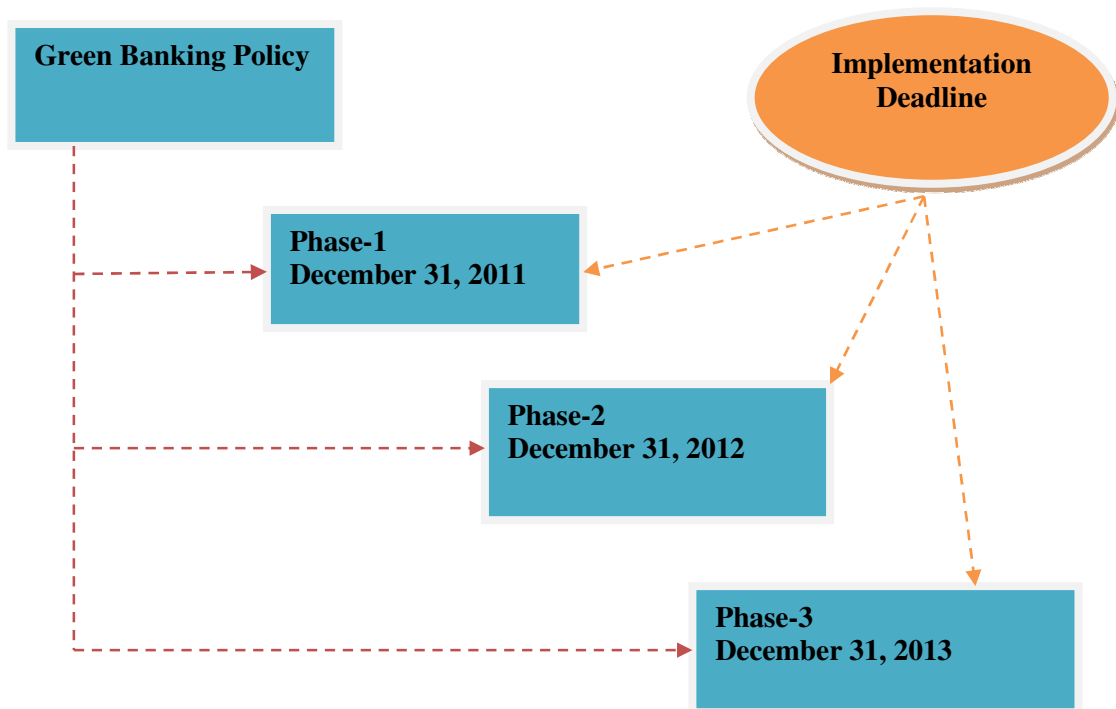
materials (its minimize the green forestation) and for this reason naturally its reduce the Oxygen and increase the carbon-dioxide in airspace/ globe. There are two ways of green banking practices. One is in-house green banking; another is practiced by the bankers in their business area. Creating clean and hygienic banking environment, green building, reforestation, online banking, waste management, installation of solar panel on the rooftop of the bank and using high mileage vehicles, reducing sound pollution, using a webcam for video conferencing instead of physical meetings, online statements, emailing documents are involved in the in house Green Banking. Financing the green projects like Biogas Plant, Solar/Renewable Energy Plant, Bio-fertilizer, Plant, Effluent Treatment Plant (ETP), Projects having ETP, working on specific green projects, voluntary activities of banks are major practices by the bankers in their business areas. Green banking undertakes proactive measures to protect environment and to address climate change challenges while financing along with effective use of renewable, non-renewable, human and natural resources. (Lalon, 2015)

5.2 Earlier Initiatives of Bangladesh Bank

BB is well conscious of the environmental degradation condition as mentioned above and has already given time to time directions to all scheduled banks. While financing a new project or providing working capital to the existing enterprises, commercial Banks are now required to ensure essential measures to protect environmental contamination. Banks have been advised to help their clients with utmost care in opening Letter of Credit (L/C) for installation of Effluent Treatment Plant (ETP) in the industrial units. Banks have been counseled to finance in Solar Energy, Bio-gas, ETP and Hybrid Hoffman Kiln (HHK) in a brick field under refinance program of BB. A comprehensive instruction on Corporate Social Responsibility (CSR) has been delivered where banks have been asked to focus hard on linking CSR at their highest corporate level for ingraining environmentally and socially responsible practices and engaging with borrowers in scrutiny of the environmental and social impacts. Banks have been introduced E-commerce facilities with a view to providing the customers with online-banking facilities covering payments of utility bills, money transfer and transactions in local currency through the internet as well. By Considering the adverse effects of Climate Change, banks have been advised to be watchful about the adverse impact of natural catastrophes and encourage the farmers to nurture salinity resistant crops in the salty areas, water resistant crops in the water locked and flood prone areas, drought resistant crops in the drought prone areas, using surface water instead of underground water for irrigation and also using organic fertilizer, insecticides by natural means instead of using chemical fertilizer and pesticides.

5.3 Green Banking policy of Bangladesh Bank

To protect environmental degradation and ensure sustainable banking practices, the bank should adopt a comprehensive Green Banking Policy in a formal and structured manner in line with global norms. Bangladesh bank has already introduced the guidelines of green banking to protect the environment. There are 3 main phases of green banking which needs to be covered through time framework:



[Source: UN Conference, Presentation, BB Governor]

Phase one: (1) Policy formulation and governance; (2) incorporation of environmental risk in customer relationship management (CRM); (3) initiating in-house environment management; (4) introducing Green Finance; (5) creation of Climate risk Fund; (6) introducing Green Marketing; (7) Online Banking; (8) Supporting employee training, consumer awareness and green event; and (9) disclosure and reporting of green banking activities.

The deadline for compliance of programs under phase one was December 31, 2011.

Phase two: (1) Sector specific environmental policies; (2) green strategic planning; (3) setting up green branches; (4) improved in-house environment management; (5) formulation of bank specific environmental risk management plan and guidelines; (6) rigorous programs to educate clients; and (7) disclosure and reporting of green banking activities.

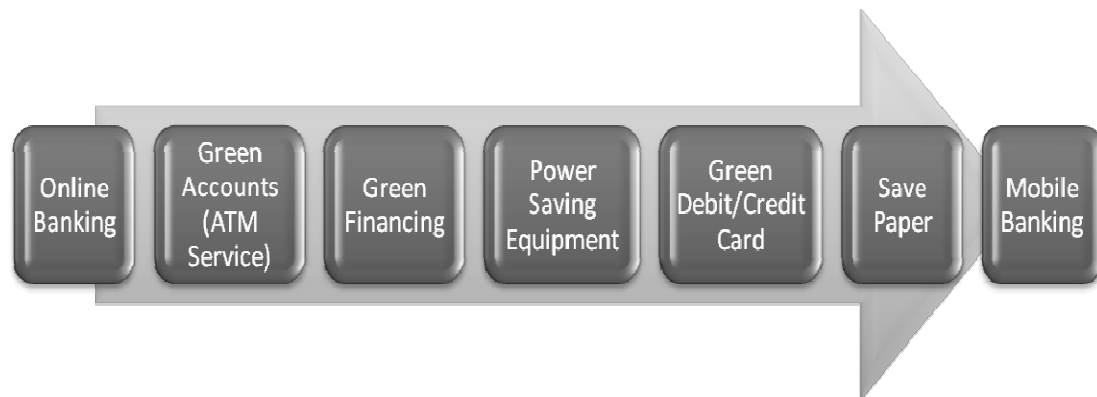
The deadline for compliance of the program under phase two is December 31, 2012.

Phase three: (1) designing and introducing innovative products; and (2) reporting in standard format with external verification.

The deadline for compliance of the program under phase three is December 31, 2013.

5.4 Green Banking Steps

It is found from several studies that going green through green banking it needs to be maintained the following sequences in the banking system:



[Figure: Steps in Green Banking]

6 Discussion and Analysis

6.1 Green Investment

Green investments employ the financial services to the businesses and projects that help prevent deterioration of the environment as well as which are not harmful to the environment. The Bank gives priority in disbursing the environment friendly investments like renewable energy, energy efficiency, waste management, alternative energy, recycling & recyclable product, green industry, safety and security of the factory, clean water supply etc. Some of these green investments of 2014 of bank are given below:

Table-1 Green Investment

Particulars of Green Investments	2014		2013		Growth/Decrease (%)	
	Number	Amount	Number	Amount	Number	Amount
Projects financed having ETP	219	48352.51	192	39677.00	14.06%	21.87%
Bio-gas plant	9	0.89	9	7.00	0%	-87.29%
Solar Home System & Solar Panel trades	18	131.08	17	117.78	5.88%	11.29%
Bio-fertilizer plant	2	0.20	3	2.00	-33.33%	-90%
Projects financed having Tunnel Kiln	22	632.87	8	761.00	175%	-16.84%
Installation of Zigzag kiln	31	125.97	28	126.90	10.71%	-0.79%
Projects financed having ZigZag Kiln	455	2170.64	149	1382.00	205.37%	57.07%
Waste and hazardous disposal plant	6	2001.77	2	500.00	200%	300.35%
Waste paper recycling plant	12	394.64	9	981.00	33.33%	-59.77%
Waste battery recycling plant	11	510.46	9	198.00	22.22%	157.81%
PET bottle recycling plant	12	370.05	5	419.00	140%	-11.68%
Financing of LED bulb production	3	29.16	2	75.00	50%	-61.12%
Safe/Clean Water Supply Projects	14	4012	3	4.00	366.67%	3%
Improved cooking stove (Bandhu Chula)	6	1.50	4	0.06	50%	2400%
Green finance at zero rate of return	3930	21.96	3087	15.27	27.31%	43.81%
Electricity Generation from Rice Husk	1	176.34	1	111.35	0%	58.37%
Rice bran Oil Production	2	441.07	2	373.86	0%	17.98%
Total=	4835	55368.53	3530	44751.22	36.97%	23.73%

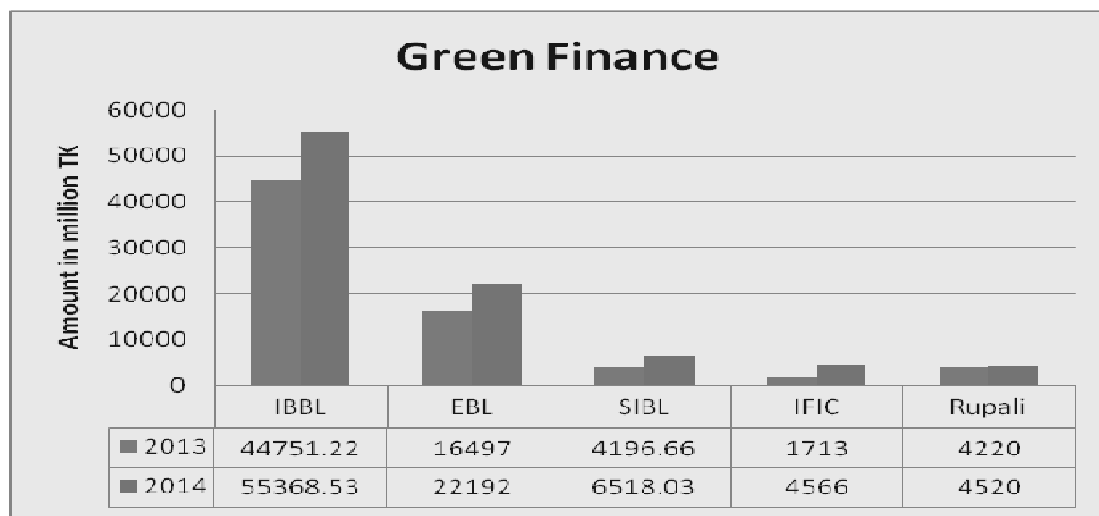
[Source: Annual report of IBBL 2013-2014]

Discussion:

According to the above table, it is clearly estimated that the green investment in 2014 & 2013 was 55368.53 million Tk and 44751.22 million Tk respectively. So it is observed that the proportion of growth of green investment was higher in 2014 than the previous year.

6.2 Highlights of Green Finance of some selected Banks in Bangladesh

The Green finance of Islami Bank Bangladesh Ltd is too high from the other commercial Bank in Bangladesh.

Figure-1 Green Finance

[Source: Annual report of Commercial Banking in Bangladesh 2013-2014]

Discussion:

IBBL's Green finance is higher than the other selected Banks in Bangladesh. The finance of IBBL was Tk. 44751.22 million in 2013 and Tk. 55368.53 million in 2014. EBL shows the gradual increase in finance. As on 2013 the green investment of selected banks was Tk. 16497 million rises over the previous year at Tk. 22192 million. SIBL Bank in 2014 the Green finance marked Tk. 6518.03 million raises over the previous year at Tk. 4196.66 million. From 2013 the Green finance IFIC was Tk. 1713million, which was increased Tk. 4566 million in 2014. From 2013 the green finance of Rupali bank was Tk. 4520 million, which was increased Tk. 4520 million in 2014.

7. Findings

The findings of the research are given below:

- Green banking shuns as much paperwork as possible and rely on online/ electronic transactions for processing so that we get green credit cards and green mortgages. Less paperwork means less cutting of trees. It also involves creating awareness to banking

business people about environmental and social responsibility enabling them to do an environmental friendly business practice.

- Green banks approve and implement environmental standards for lending, which is really a preemptive idea that would facilitate eco-friendly business practices which would benefit future generations.
- When a loan is granted, the interest on that loan is comparatively less with normal banks because green banks give more importance to environmental friendly factors-ecological gains.
- Natural resource conservation is also one of the underlying principles in a green bank while assessing capital/operating loans to extracting/industrial business sector.
- Green banking as a concept is a proactive and smart way of thinking with a vision for future sustainability.
- The value proposition for corporations to go green includes many of the same issues as that for individual consumers but on a much larger scope and with additional concerns. Corporations may share a desire to reduce carbon footprint and enhance security by eliminating paper waste, but they are also extremely concerned with eliminating or decreasing errors due to manual processing and by creating a profitable bottom line. For these reasons and more, corporations are actively pursuing green programs, many companies are taking active steps to reduce waste, implement sustainability measures and increase profitability by going green.

8. Recommendations

Some recommendations can be furnished as follows:

- Government should carefully monitor and oversee the green banking practices in Bangladesh.
- Banks should finance in a project after assessing its environmental or climate risk. Investment should only be given after being assessed the environmental risks of particular project.
- Banks should introduce new environment friendly products such as Green Home Loan, Green Car Loan and others in this regard.
- Banks should ensure finance in projects those are environmentally friendly or ethical in nature. Investment should be increased for projects installing solar energy plant, bio-gas, bio-fertilizer plants, Effluent Treatment Plant (ETP), Hybrid Hoffman Kiln projects.
- The government should encourage the general people about green banking awareness through the electronic and print media.
- Banks should arrange several seminars and symposiums to make their clients conscious regarding Green Banking as well as to introduce their Green Products and services therein. This can eventually make the clients adapted to the Green Banking activities.

9. Conclusion

By the time, the banking sector in Bangladesh has transformed the way it used to run in the past. The banking sector is getting modernized and new amenities such as net banking, mobile banking are being prioritized at the place of outdated approaches. These innovative approaches adopted by the banks are useful to customers as well as banks themselves. Now the banks understood the importance and necessity of environment along with the economic development of a nation. Learning from their western counterparts the banks in Bangladesh are also adopting various environmental does and initiatives in their day today business operations for the environmental concern and playing an important role in conserving the ecological balance. But the Bangladeshi banking sector is still at the preliminary stage of green banking initiatives. As most of the banks are adopting and concentrating only on those green initiatives which gives win-win situation for the bank, that help to show the concern for the environment along with helping the bank in cost savings and better operational efficiency. So the time demands a little focus on the initiatives such as making awareness among society, and helping smaller firms to change their process so they can be more environmentally friendly in nature and that will also widespread the concept of environmental sustainability.

Future research may be conducted to study the impact of green practices on consumer willingness to purchase green products of various organizations in Bangladesh.

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